



PUBLIC EXPENDITURE SURVEY 1986: SCOTLAND

Note of a meeting in the Chief Secretary's room, HM Treasury on Thursday 18 September 1986.

Present:

TREASURY

Chief Secretary
Mr F E R Butler
Mr Burgner
Miss Peirson
Mr D J L Moore
Mr Norton
Mr Pirie
Mr Gray
Mr Sutton
Mr Hoare
Mrs Diggle
Mr Davis
Mr Tyrie

SCOTTISH OFFICE

Secretary of State for Scotland
Dr McCrone
Mr MacKenzie
Mr Thomson
Mr Brady

The Chief Secretary said that the difficult public expenditure position this year meant that he was asking for support from all his colleagues in achieving the objectives set him by the Cabinet.

NATIONALISED INDUSTRIES

2. The proposed external finance limit for the Scottish Transport Group was agreed subject to the proviso on the level of grant made in the Chief Secretary's bidding letter.

3. The Secretary of State hoped it was agreed that the additional resources required for Torness and Hunterston B were unavoidable. However, he was ready to explore a number of ways in which offsetting savings could be made. On tariffs, he felt that there must be benefits to industry and the consumer if the Government was to win the nuclear power debate. Opposition to Torness had strengthened since Chernobyl, and the South of Scotland Electricity Board was anxious to demonstrate the benefits of cheap nuclear power. Account also had to be taken of the fall in fossil fuel prices which had meant pit closures and contractions. These had been accepted by the public because of wider energy considerations. The Treasury proposals would mean a real increase in electricity prices which would cause particular problems if the price increase in Scotland was higher than in England.

4. On capital, the Secretary of State accepted that the Boards should not be contemplating ambitious expansion. Essentially what was required was modernisation compatible with real needs. There would be some savings on the capital programme. But it was not within his power to determine tariffs.

5. The Chief Secretary said it was disappointing that these bids attempted to undo last year's Investment and Financing Review. Any settlement reached must not end up so wide of the planning total as to have adverse effects on the economy. He accepted that, while the Boards must respect Ministerial decisions, Ministers could not determine tariffs. His interest was in the global figure, not in any particular capital/tariff mix. He understood the political argument on nuclear power.

6. Mr Moore accepted that expenditure on Torness and Hunterston B was unavoidable: that was why the Treasury proposed a one per cent price increase in 1987-88 followed by a one per cent real decrease in 1988-89 and no change in 1989-90. The decrease would occur when Torness came on stream.

These tariff increases would allow a 3 per cent return on capital over the period. The longer term aim was a 5 per cent rate of return.

7. The meeting discussed the effect of coal and oil prices on tariffs. The Secretary of State would expect to see price benefits on nuclear power. He would write to the Chief Secretary with quantifiable proposals on capital, which would take account of revised sales assumptions and improvements in operating costs. These might be found partly by assuming more realistic output from Hunterston B. The Chief Secretary warned that the pressures in the Survey were such that he would continue to press for tariff increases.

INDUSTRY

8. The £0.6million bid for ERDF was agreed as an automatic adjustment.

9. The Secretary of State explained that his bid reflected a realignment of spending patterns in SDA, with significant reductions in running costs. The recent review, in which Treasury had participated, had found that land renewal gave very good value for money. There was no bid in 1988-89 because of the substantial receipts from the Glasgow Garden Festival. The bid for 1989-90 did not represent any increase in Agency activity, but would enable it to work better on its existing requirements. The work of the Agency was attracting increasingly favourable comment.

10. The Chief Secretary said that he had to look for savings where he could find them. Favourable comment on the Agency's work did not imply support for present levels of funding: moreover the review had pointed to areas of activity where Agency involvement could be reduced. He took the point on land reclamation; but the review had questioned the value for money of some projects, and he was keen to have a clear analysis of output

measures etc: priorities would then have to be determined within existing resources.

11. The Chief Secretary asked why there were no Garden Festival receipts in 1989-90. Dr McCrone replied that the Festival would be over by October 1988, after which the land would go for private development. However the profile of receipts would be checked. Mr Burgner pointed out that the Agency's expenditure on the Festival would also decline over the Survey period. The Secretary of State said that the Agency was becoming more efficient: however the actual bid was required in order to keep the gross grant in aid at the present level.

12. The Chief Secretary concluded this part of the meeting by asking the Secretary of State to review the scope for savings in this area.

DEPARTMENTAL RUNNING COSTS

13. The Secretary of State asked whether the agreement discussed between officials on the Prison Service would be endorsed. Mr Butler explained that discussions had been ad referendum and that, while there was probably agreement on manpower, the proposals on pay meant unacceptably high unit cost increases. The Chief Secretary hoped that it would be possible to agree running costs limits which implied figures for Prisons below those discussed by officials, ie:

	£m		
	60.0	60.9	61.3

14. The additional £1.1 million for 1987-88 (£1.2 million for 1988-89 and 1989-90) in the figures discussed by officials could be regarded either as unwinding the knock-on effects of this year's pay settlement, or as allowing a pay assumption of up to 5.75 per cent for 1987-88, or as combining these elements in some degree. The Chief Secretary said that he was refusing to accept any bids for the first reason, while a pay assumption of 5.75 per cent was too high given the current and forecast levels of inflation. Cabinet had endorsed the philosophy behind the running costs regime: that if pay settlements exceeded the allowance made in running costs as to what was affordable, there would have to be compensating savings.

15. Mr Thompson saw very little room for manoeuvre on general administrative expenditure (GAE). The bulk of Prisons running costs were accounted for by pay (each 1 per cent on the pay bill adding £0.4 million), and there was a rapidly increasing prison population.

16. Mr Sutton said that the real pressures on the Prison Service were recognised; large concessions had already been made. Even without the £1.1 million extra for pay in 1987-88, there was still a 13.2 per cent aggregate increase, enough to keep Low Moss open for a further year. The Chief Secretary asked if a review of design capacity would help to identify extra prisoner places: it was agreed that this would be done.

17. Increases in prison manpower of 126, 6 and 6 in the three Survey years were agreed, but running costs limits were left over for the time being.

18. Discussion turned to the Scottish Office's departmental programmes. Mr Butler observed that the Department was well below the MPO's 1 per cent per annum guideline for efficiency savings in departments generally. Mr MacKenzie explained that there were many pressures on the Department: he instanced student awards, and other new initiatives. The Department needed to improve the way it presented Government policy. Information technology had been used to make efficiency savings, but was itself absorbing money. The Secretary of State pointed out that staff resource was needed to achieve a merger of the Scottish Special Housing Association and the Housing Corporation, which would produce large public expenditure savings.

19. On the minor Scottish Departments, which were subject to separate running costs and manpower controls, the Secretary of State pointed to demand-led pressures (flowing from the success of council house sales) on the work of the Department of Registers and Scottish Record Office. Mr Butler said that the Treasury were more sympathetic to the problem in the Scottish Courts Administration.

20. Concluding this part of the discussion, the Chief Secretary said that he would write very soon with counter-proposals on running costs and manpower for Prisons (where the two sides were not far off agreement) and Scottish Office departmental programmes. Officials should follow up on the minor Scottish Departments, with a view to a settlement.

SCOTTISH BASELINE - POPULATION ADJUSTMENT

21. It was agreed that there was no prospect of progress being made bilaterally on this question.

LOCAL AUTHORITY CURRENT - EXCESS FORMULA CONSEQUENTIALS

22. The Secretary of State said that his position was simple: he took the rough with the smooth on the formula and just wanted to operate in the normal way. He was not arguing for a bonus for good behaviour: the formula was public knowledge and it would appear extraordinary if not applied.

23. The Chief Secretary replied that this year's decisions on local authority current expenditure were special, and followed from the consequences of overspending in England. There could be no automatic entitlement as a result of such realism. A comparison of Scottish and English local authority spending per head showed higher spending in Scotland despite England's "overspending".

24. Mr Butler asked where the extra provision would be used: if it was employed elsewhere in the block, Scotland would benefit twice over if - as could be assumed - local authorities overspent. The Secretary of State suggested that part of the excess could

CONFIDENTIAL

meet the cost of containing the revaluation rebate. There could also be some enhancement to LA capital.

25. Concluding the meeting, the Chief Secretary asked the Secretary of State to reflect whether it was worth pursuing this at a further meeting. He saw no reason to move from his July position..

HM TREASURY

21 September 1986

Copies to:

Those present
Principal Private Secretary
PS/Sir Peter Middleton
Mr Turnbull

Jill Rutter
PP

JILL RUTTER
Private Secretary